

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION OF WESTPORT UTILITIES, INC.)	
FOR AUTHORITY TO ACQUIRE AND OPERATE THE)	
SEWAGE TREATMENT PLANT OWNED BY ROLLING)	
HILLS SERVICE COMPANY AND FOR AUTHORITY TO)	CASE NO. 8460
ACQUIRE THE STOCK AND INCUR THE NECESSARY)	
FINANCING TO PURCHASE ROLLING HILLS SERVICE)	
COMPANY)	

O R D E R

On February 17, 1982, Westport Utilities, Inc., ("Westport") filed an application with the Commission seeking approval of the transfer of all the outstanding stock of Rolling Hills Service Company ("Rolling Hills") from Jesse C. Bollinger, Jr., George C. Martin, Campbell E. Miller and Benjamin J. Wihry to Westport pursuant to a stock purchase agreement entered into by Westport and the stockholders of Rolling Hills dated November 18, 1981. This agreement was filed with the application as Exhibit 2.

A public hearing was held on May 19, 1982, at the Commission's offices in Frankfort, Kentucky, with all parties of record in attendance.

On June 11, 1982, Westport filed an amended application with the Commission asking to include the approval of financing in the application. Westport requested authorization to borrow \$600,000 to acquire the outstanding stock of Rolling Hills.

The stock purchase agreement in the application indicated that upon full payment of debt owed to Portland Federal Savings and Loan Association ("Portland Federal") on June 2, 1988, Rolling Hills would be liquidated and assumed by Westport. Carroll F. Cogan, president of Westport, testified that the liquidation would occur within the next year. (1)

COMMENTARY

Rolling Hills is located in Jefferson County, Kentucky, and consists of a treatment plant and its adjacent collection system. The plant serves 1,382 customers and has a treatment capacity of 585,000 gallons per day.

Westport received its Articles of Incorporation on June 22, 1981, with Carroll F. Cogan being sole stockholder and president.

FINDINGS IN THIS MATTER

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. Westport is ready, willing and able to purchase, operate and provide adequate and reliable service to the customers presently served by Rolling Hills. Furthermore, the stockholders of Rolling Hills are ready and willing and they desire to sell, inasmuch as they wish to divest themselves of the ownership and operation of this sewage treatment system.

(1) Transcript of Evidence, May 19, 1982, page 18.

2. The quality of service to the present customers of Rolling Hills will not suffer in that Andriot-Davidson Service Company, Inc., which has knowledge and experience in the operation and maintenance of sewage treatment facilities, will be employed to operate the system. Furthermore, Andriot-Davidson Service Company, Inc., is familiar with the construction and operation of this treatment plant.

3. The agreed-upon purchase price is \$600,000 which was determined through negotiations between Westport and the stockholders of Rolling Hills.

4. Westport has adopted the tariffs, rates, rules and regulations filed with the Commission by Rolling Hills for furnishing sanitary sewer service to its customers.

5. The third party trust agreement filed with the Commission in this application has been reviewed and found to contain, in Section 12, a provision which automatically terminated the agreement when the rates, services and operation of Rolling Hills were placed under the jurisdiction of the Public Service Commission.

6. Westport has filed with the Commission its Articles of Incorporation and Certificate of Incorporation as well as the bylaws adopted by its board of directors.

7. Westport should maintain its books of account in accordance with the Uniform System of Accounts for Sewer Utilities prescribed by this Commission. Accounting for an acquisition includes:

- A. Recording the utility plant acquired at its original cost to the person first devoting it to public service, estimated if not known, in the appropriate utility plant in service accounts;
- B. Crediting the requirements for accumulated provision for depreciation and amortization applicable to the original cost of the properties acquired to the appropriate account for accumulated provision for depreciation and amortization;
- C. Transferring the cost of any nonutility property to Account 121, Nonutility Property;
- D. Crediting contributions in aid of construction to Account 271, Contributions In Aid of Construction; and
- E. Including in Account 108, Utility Plant Acquisition Adjustment, any difference between the purchase price and the original cost of the utility plant and nonutility property less the amounts credited to accumulated depreciation and amortization reserves and contributions in aid of construction.

8. While legal and proper for general accounting purposes, this acquisition transaction, if not at "book value," can either increase or decrease the debt and/or equity on the utility's books. Therefore, Westport and its stockholders are hereby apprised that the Commission will not allow, for rate-making purposes, interest charges on debt that exceed those charges which would have been incurred to finance the original cost of plant in service excluding any acquisition adjustment less accumulated depreciation and contributions in aid of construction. Allowable interest charges should be computed using

the weighted average cost of debt. The Commission also will not allow a return on equity or amortization of an acquisition adjustment that resulted from this transaction for rate-making purposes.

9. Westport requested authority to borrow \$600,000 from the stockholders of Rolling Hills. The financing is in the form of a promissory note, which is included in the application as Exhibit 4. The principal amount is \$600,000 for a term of 40 years with interest thereon at the rate of 8 percent per annum. This note is payable in 480 monthly installments of \$4,171.90 of which \$2,069.99 of the installment shall be applied to a previous loan by Portland Federal to Rolling Hills. The remainder of the installment is to be divided among the stockholders of Rolling Hills in the manner set out in Exhibit 4 of the application. The last payment to Portland Federal shall be due June 2, 1988, and thereafter, the full installment amount shall then be paid to the stockholders of Rolling Hills. The financing of \$600,000 by the stockholders of Rolling Hills to Westport should be approved.

10. Carroll F. Cogan, president of Westport testified that following consummation of the proposed acquisition, the operating costs of Westport will be reduced because of economies of scale inherent in operation and ownership of a number of sewer utilities under this Commission's jurisdiction.⁽²⁾

11. The Commission will review Westport's financial statements to be filed as a part of its Annual Report for 1982 to

(2) Transcript of Evidence, May 19, 1982, page 26.

determine the appropriateness of existing customer rates at that time.

12. Should operating expenses not be reduced as noted in finding number 10, the Commission will upon its own motion institute a formal investigation of Westport's rates and operations.

13. The transfer of the stock of Rolling Hills to Westport should be approved.

ORDERS IN THIS MATTER

The Commission, on the basis of the evidence of record and the findings herein set forth:

HEREBY ORDERS that the transfer of Rolling Hills from its stockholders, Jesse C. Bollinger, Jr., George C. Martin, Campbell E. Martin, and Benjamin J. Wihry, to Westport be and it hereby is approved.

IT IS FURTHER ORDERED that the financing of funds of \$600,000 as described in finding number 9 be and it hereby is approved.

IT IS FURTHER ORDERED that in future rate cases before the Commission allowable interest charges shall be determined as set out in finding number 8.

IT IS FURTHER ORDERED that Westport shall adopt the existing rates, rules and regulations filed with and approved by the Commission for Rolling Hills.

IT IS FURTHER ORDERED that Westport shall file with this Commission within 30 days from the date of this Order its original tariff sheets setting forth rates, rules and regulations as required by KRS 278.160.

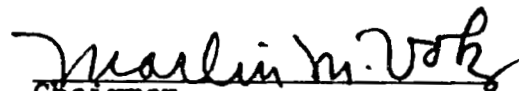
IT IS FURTHER ORDERED that Westport shall file with this Commission within 30 days from the date of this Order the balance sheets of Rolling Hills and Westport at the date of the transfer, the final journal entries required to consummate the transfer and the resulting balance sheet subsequent to the assumption of Rolling Hills by Westport.

IT IS FURTHER ORDERED that Westport shall file with this Commission within 30 days from the date of this Order a valid third party trust agreement pursuant to 807 KAR 5:071, §2a.

Nothing herein contained shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

Done at Frankfort, Kentucky, this 11th day of August, 1982.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary